

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF WASHINGTON

In re

KENNEWICK PUBLIC HOSPITAL
DISTRICT,

Debtor.

NO. 17-02025-9

**STATEMENT OF POTENTIAL
ASSET PURCHASER ASTRIA
HEALTH**

I.
INTRODUCTION

In Exhibit B to the recently-filed Preliminary Objection of the Official Committee of Unsecured Creditors to the Debtor's Motion for Order (1) Approving Disclosure Statement and (2) Establishing Confirmation Schedule and Related Procedures [ECF No. 841], the Official Committee of Unsecured Creditors notes that it "has identified Astria Health as a potential purchaser of some or all of the Debtor's assets," and that Astria Health and its counsel will be present at the May 15, 2018 hearing in this matter. Astria Health ("Astria") therefore respectfully submits the following Statement to provide the Court with additional background information regarding its interest in purchasing the Debtor's assets and the efforts it has made toward that goal.

STATEMENT OF POTENTIAL ASSET PURCHASER
ASTRIA HEALTH - 1

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II.
STATEMENT

A. Background.

Astria is a nonprofit regional health system headquartered in the Yakima Valley. Declaration of John Gallagher (“Gallagher Decl.”) ¶ 3. Astria is the parent organization of Astria Sunnyside Hospital in Sunnyside, Washington; Astria Regional Medical Center in Yakima, Washington; and Astria Toppenish Hospital in Toppenish, Washington. *Id.* It is the largest nonprofit healthcare system based in eastern Washington. *Id.* As a locally-based nonprofit health system, Astria’s mission is to provide healthcare services to the communities it serves. *Id.* Every dollar it earns is reinvested into providing quality healthcare through: new or expanded patient care services, access to care, new physician service, new technologies, and attracting and retaining engaged professionals who share its vision. *Id.* Astria has a strong record of success in turning around, building, and growing healthcare operations, including its recent turnaround of the former Sunnyside Community Hospital (now known as Astria Sunnyside), Astria Regional Medical Center, and Astria Toppenish Hospital. Gallagher Decl. ¶ 4.

B. Astria’s Interest In Purchasing Debtor’s Assets.

Because Debtor, as a public health system, serves a similar geographic and socioeconomic population as those served by Astria’s existing hospitals, Astria has been highly interested in an acquisition of the Debtor since well prior to Debtor’s petition in this action. Gallagher Decl. ¶¶ 5-6. Once Debtor filed its Petition, however, Astria’s efforts toward a transaction were largely frustrated, and it has experienced considerable difficulty in its attempts to re-engage Debtor regarding a sale. A brief timeline of Astria’s efforts toward putting together a deal is as follows:

- In early 2017, Craig Cudworth was appointed as interim CEO of the Debtor. An executive at Astria knew Mr. Cudworth from previous dealings, and reached out to him to start a dialogue about an acquisition by Astria. Gallagher Decl. ¶ 6.

- On March 10, 2017, Astria signed a non-disclosure agreement and was given access to a data room. Astria spent the next two months reviewing the data provided in the data room and had meetings with District executives and a select number of board members and physician representatives on their committee. Gallagher Decl. ¶ 7.
- In early May 2017, Astria submitted a Letter of Intent to Debtor outlining some terms of a potential acquisition. Gallagher Decl. ¶ 8.
- In late May or early June 2017, Mr. Cudworth informed Astria that all discussions would have to be halted because Debtor's financial situation had deteriorated and it needed to file a Chapter 9 petition. Mr. Cudworth represented that Debtor would not be having any further discussions until it emerged from Chapter 9. Astria asked Mr. Cudworth to keep it informed and to let them know when Debtor was ready to re-start sale talks. Gallagher Decl. ¶ 9.
- Debtor filed its petition on June 30, 2017 [ECF No. 1].
- Astria heard nothing further until October 26, 2017, when Mr. Cudworth contacted Astria to inform it that the Creditors Committee had asked for the names of potential buyers with whom Debtor had spoken prior to the Bankruptcy. Mr. Cudworth asked permission to disclose Astria to the Committee, and Astria consented. Gallagher Decl. ¶ 10.
- In February 2018, a Financial Advising firm retained by the Creditors Committee contacted Astria to gauge interest in an acquisition. Astria confirmed that it remained very interested in such a transaction. Gallagher Decl. ¶ 11.
- On March 12, 2018, Astria executed a new non-disclosure agreement to obtain access to the data room set up by the Debtor's new counsel in the Bankruptcy. Gallagher Decl. ¶ 12.
- Due to software problems and clerical error on the part of Debtor's staff, Astria's access to the new data room initially was delayed. After the error was discovered and the software issues corrected, Astria was able to access the data room and began conducting due diligence. Gallagher Decl. ¶¶ 13-14.

In connection with conducting due diligence on a potential purchase of Debtor's assets, Astria retained Kaufman Hall, a nationally known and well-respected consulting firm in the medical industry, to evaluate the available information regarding the Debtor and analyze various scenarios for a transaction. Gallagher Decl. ¶ 15. Those efforts are ongoing; however,

1 both Astria and its consultant have encountered difficulties in obtaining information from the
2 Debtor, which has made it extremely challenging to analyze the specifics of a potential deal.
3 *Id.* Among other things, the Debtor’s “new” data room initially appeared to contain only the
4 same information that it did a year earlier in March 2017, when Astria initially began
5 conducting due diligence. *Id.* Although new information since has begun to be added, Astria
6 still needs additional time to analyze and gather information before it can propose concrete
7 financial terms, including an analysis of federal and state compliance issues (including
8 potential Medicare overpayments or Stark violations), physician contracts, and the status of
9 certain equipment. Gallagher Decl. ¶ 19. Astria does have sufficient financial resources for a
10 purchase of Debtor’s assets. Gallagher Decl. ¶ 20.

11 **C. Advantages Of A Sale To Astria.**

12 Astria believes that, if permitted sufficient time and access to information to conduct its
13 due diligence and construct a proper offer, a task which it was fully posited to undertake one
14 year ago, it will be in a position to acquire Debtor’s assets on terms which will be much more
15 favorable to both the creditors in this case and the Kennewick community which Debtor serves
16 than the opaque proposed sale to RCCH. Gallagher Decl. ¶ 16. Setting aside the specific terms
17 of any transaction, some of the advantages of a sale to Astria are as follows:

- 18 • Unlike RCCH, which is an out-of-state, for-profit company, Astria is a locally-
19 based non-profit whose focus is on meeting the healthcare needs of the local
20 community, including the underserved and indigent. Astria is better-positioned
21 to respond to changing community needs and to ensure the top level of care for
22 area patients. Gallagher Decl. ¶ 16.
- 23 • A sale to Astria would proceed along a faster timeline and would result in a
24 faster disposition of this case due to Astria’s status as a nonprofit, which
25 obviates the need for a Certificate of Need application or State Attorney General
26 approval. By contrast, RCCH must go through a full Certificate of Need

1 application process because it will be seeking to convert the Debtor into a for-
2 profit company; such a process can take many months or even years. Astria can
3 therefore close a transaction much more quickly. Gallagher Decl. ¶ 2.

- 4 • Astria is committed to the sustainability of local healthcare facilities and to
5 assuring that the mix of services available at its facilities supports the needs of
6 the local community. Gallagher Decl. ¶ 17.
- 7 • Astria is well-situated to engage the local community in activities such as
8 community population health needs assessments and desired educational and
9 outreach programming. *Id.*
- 10 • Because it is locally-based, Astria's acquisition of Debtor would contribute to
11 the continuing economic viability of the Kennewick area and eastern
12 Washington in general. *Id.*
- 13 • Astria's mission would ensure that Debtor's focus would remain on providing
14 access to quality healthcare close to home for area residents. *Id.*

15 For these reasons and more, Astria believes that it is uniquely situated to provide value
16 not only to Debtor's creditors but also to the local community Debtor serves.

17 **III.**
18 **CONCLUSION**

19 The foregoing Statement is submitted to aid the Court in its consideration of the issues
20 at the May 15, 2018, hearing in this matter. Astria and its counsel look forward to providing
21 additional information at the hearing as needed.

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1 DATED this 11th day of May, 2018.

2 GARVEY SCHUBERT BARER, P.C.

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4 By s/ Charles C. Robinson

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1 **CERTIFICATE OF SERVICE**

2 I hereby certify that on May 11, 2018, I caused to be electronically filed the foregoing
3 STATEMENT OF POTENTIAL ASSET PURCHASER ASTRIA HEALTH with the Clerk of
4 the Court using the CM/ECF system which causes parties who are registered ECF participants
5 to be served by electronic means.

6 Dated this 11th day of May, 2018, at Seattle, Washington.

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8 GARVEY SCHUBERT BARER

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10 By s/ Charles C. Robinson
Charles C. Robinson

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